Today's featured company is:

Enterprise Products Partners L.P.

A Win-Win Option in the Midstream Space

Providing midstream energy services to producers across the United States, **Enterprise Products Partners L.P. (NYSE: EPD)** holds assets including ~50,000 miles of natural gas, natural gas liquids (NGLs), crude oil, refined products, and petrochemical pipelines; storage facilities accommodating 260 million barrels of NGLs, refined products, and crude oil; 28 natural gas processing plants; 23 propylene fractionators; and import/export terminals with an offloading capacity of 14,000 barrels per hour and a loading capacity of 27,500 barrels per hour. For more information, visit www.enterpriseproducts.com.

- More than $56 billion in assets
- A market capitalization more than $60 billion
- $38 billion in organic growth projects and $26 billion in major acquisitions since the company's IPO in 1998 through 2017
- $400 million in growth capital projects completed so far in 2018

Click here to view the Enterprise Products Partners Fact Sheet.
Click here to view the Enterprise Products Partners Investor Presentation.

Adviser Access spoke to EPD's **President Randy Fowler**.

Advisor Access: Randy, would you mind sharing your perspective of the market for master limited partnerships (MLPs) from where you sit?

Randy Fowler: Recently, in our earnings call, I shared a summary of how Benjamin Graham, author of The Intelligent Investor, used the metaphor of Mr. Market to explain market sentiment. Every day Mr. Market tells us how he is valuing the worth of a business. Some days, he is enthusiastic and some days, he is fearful. On August 2, the day after we reported strong second quarter results, Enterprise Products Partners (EPD) closed at $29.20 per share, only 2% higher than where it closed on July 31, 2015. Yet our underlying distributable cash flow (DCF) for the first six months of 2018 compared to the same period in 2015 increased 40%; our DCF per unit increased 27%; and our excess DCF, which is retained in the partnership and reinvested in growth projects, increased 78%. This contrast is noteworthy.

Advisor Access has interviewed analysts Kevin McCarthy at Kayne Anderson and Kevin Gallagher at Cushing Asset Management in prior publications, and they shared their opinions of what's going on in the MLP equity markets. I'll leave the market sentiment question to the expert opinions of these investment professionals.

AA: ***You mentioned you've reported a great second quarter for 2018. Would you mind giving a recap of the results?***

RF: Sure. We currently have twenty-six equity analysts that rate our stock a buy—none rate it a hold or a sell. Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) for the second quarter beat analysts' estimates by 13%.

We reported fourteen operational and financial records that underpin the strong performance. These quarterly records include adjusted EBITDA of $1.77 billion; DCF of $1.43 billion; and overall pipeline transportation volumes (on a barrel equivalent basis) of 9.82 million barrels per day. We also loaded 169,000 barrels per day of ethane for exports, and our marine terminals handled 802,000 barrels per day of crude oil imports/exports.

All in all, we were very pleased with and appreciative of the hard work and efforts of our employees, which makes our success happen.

AA: With regard to your record import/export activity at marine terminals, we've all seen a few headlines lately about crude exports. It seems Enterprise is a major player in crude oil exports. Can you discuss that business?

RF: Our market share for loading U.S. crude oil exports through May 2018 is approximately 34%. According to the U.S. Energy Information Administration (EIA), the U.S. exported approximately 2 million barrels per day of crude oil in May. By 2022, we believe the U.S. could be exporting 5 million barrels per day, driven by shale production growth, particularly from the Permian Basin. For the most part, these exports are light crude oil that U.S. refineries have limited capacity to process.

> ***"Our market share for loading U.S. crude oil exports through May 2018 is approximately 34%."***

Very large crude carriers (VLCCs), which have the capacity to transport 2 million barrels of crude oil, are the energy industry's workhorses—a cost-effective means of transporting crude oil across the oceans to the largest markets. VLCCs are approximately 300 yards long, 50 yards wide, and have a water draft of 75 feet when fully loaded. Because of this deep draft, no coastal port in the U.S. can fully load a VLCC. Substantially, all of the VLCCs loaded in the U.S. utilize the costly and time-consuming process of "reverse lightering," whereby three or four smaller ships, such as Suezmax tankers, load crude oil at a coastal marine terminal and then transfer their crude cargoes to a VLCC waiting offshore in deeper water. This contrasts with other large crude oil exporting countries in the Middle East and Africa, where VLCCs can load at very long piers at coastal marine terminals with sufficient water depth, use an offshore port connected to land-based supplies by pipeline, or reverse lighter.

To our knowledge, Enterprise was the first company in the U.S. to partially load crude oil on a VLCC at a domestic coastal marine terminal (with approximately 1 million barrels of crude) and then finish loading the VLCC using reverse lightering. We are working to develop an offshore port off the Texas Gulf Coast. The offshore port would have the capability to load crude at rates up to 85,000 barrels per hour. Our crude oil pipeline system integrates with major storage facilities in Cushing, Oklahoma, and in Midland and Houston, Texas. Our system aggregates over 4 million barrels per day of crude oil supplies and is ideal to anchor an offshore port. The ultimate development of the offshore port is subject to receiving the necessary permits and executing commercial contracts to underwrite the facility.

> ***"Enterprise has a $5 billion growth capital program underway in the Permian."***

We believe exports will balance U.S. hydrocarbon supply and demand. Enterprise already plays a leading role in exporting U.S. liquid hydrocarbons. Our facilities load natural gas liquids (NGLs; ethane, propane, butanes, and natural gasoline), crude oil, refined products, and petrochemical products such as propylene. We are currently adding capabilities to export ethylene.

AA: ***Shifting gears, it seems everyone is talking about the Permian Basin. How does Enterprise play a role there?***

RF: Enterprise has a $5 billion growth capital program underway in the Permian. We have started operations at three natural gas processing plants and have two more under construction. We recently began operations on our Midland-to-ECHO crude oil pipeline, which transports approximately 570,000 barrels per day of crude oil to domestic refineries and export-oriented marine terminals on the upper Texas Gulf Coast. Our 550,000 barrel per day “Shin Oak” NGL pipeline is under construction. We also just started operations at our ninth NGL fractionator at Mont Belvieu, Texas, which supports Permian NGL production. We have a number of other projects that have not been sanctioned, yet are still in the development or evaluation phase, which would be additions to this capital program. Most of our customers are large independent producers or integrated oil companies.

AA: ***What else differentiates Enterprise within the midstream space?***

RF: Two things come to mind: our employees and our approach to managing the cost of our equity capital.

We believe our team is the best in the midstream business. It starts with their work ethic and dedication. Not only do we see their efforts in everyday tasks and challenges, but we have seen it in extraordinary circumstances, such as keeping our facilities operating safely during severe weather events like hurricanes and flooding, when many of our peers in the midstream industry shut down.

> ***“We have a collaborative, ‘can do’ spirit that permeates the entire organization.”***

The creativity of our employees is second to none in my opinion. In addition to finding solutions that help us operate safely in an environmentally sensitive manner, they constantly look for ways to improve cost efficiency and solve customer problems. That effort results in reliability, and unique, tangible and intangible value-added services for our customers. The culture of our partnership embodies respect for our community, neighbors, and environment. As our founder Dan Duncan would say, we have a collaborative, “can do” spirit that permeates the entire organization, to “do the best you can every day.”

Enterprise has also been at the forefront of the MLP sector in managing the long-term cost of our equity capital in a manner friendly to our limited partners. In what was called a “landmark action,” our general partner eliminated its 50% incentive distribution right (IDR) in 2002 for no consideration. In 2010, we completely eliminated our general partner’s IDRs in a transaction that was not taxable to our limited partners, nor did it result in a distribution cut. In fact, affiliates of our general partner waived over $320 million in distributions over a five-year period to make the transaction work for our limited partners. At the time, we did not know how novel our general partner’s support to simplify Enterprise’s structure would be.

In the third quarter of 2017, we announced our next goal in managing the cost of equity capital: self-funding the equity component of our growth capital expenditures by 2019 by increasing Enterprise‘s excess DCF while continuing to provide distribution growth for our limited partners. Given the volatility and lack of funds flow into the midstream equity capital markets, we needed to become more self-reliant in funding the equity portion of our capital investments. We believe this action lowers the cost of our equity capital and reduces the dilution of limited partners that typically is associated with the issuance of new equity. We believe this will increase the partnership‘s long-term value in terms of DCF per unit, which should ultimately be reflected in a higher unit price.

During the first six months of 2018, we retained almost $950 million in excess DCF, which had the effect of avoiding the issuance of approximately 35 million incremental common units that otherwise would have been needed to fund our growth this year. Looking ahead into 2019, we remain confident in our ability to self-fund the equity portion of our growth capital program.

We continually evaluate our investment opportunities to achieve the highest potential return for our long-term investors. And, finally, our general partner (GP) and approximately 32% of Enterprise’s common units are owned by the private affiliates of Enterprise Products Company and management. Our interests are truly aligned with our investors.

AA: ***Your general partner and management truly have “skin in the game” with that large an ownership percentage. Would you say your GP has been a good supporter of the partnership?***

RF: In my opinion, Enterprise's general partner has been the most supportive in the MLP sector. It really goes back fifty years, to the beginning of the company, which was started by Dan Duncan and his partners in 1968. Dan founded Enterprise with few resources, building it through the 1970s, '80s, and '90s by fostering long-term relationships that provided midstream services to meet customer needs in win-win transactions.

When Dan took Enterprise public as an MLP in 1998, the partnership had approximately $700 million in assets, primarily in Mont Belvieu, Texas. Today, twenty years later, we have over $56 billion in assets and a market capitalization over $60 billion. A $1,000 investment in Enterprise at our initial public offering (IPO), with reinvested distributions, would be worth almost $18,000 today. This growth would not have been possible without the strong and consistent support of our GP.

In addition to the actions we discussed earlier, affiliates of our GP have also purchased approximately $1.9 billion of Enterprise common units since our IPO, including $206 million thus far in 2018. There are several other examples of our GP's support to facilitate Enterprise's distribution growth, credit rating, and acquisitions. We have been very fortunate to have such a financially strong and supportive GP.

AA: ***That's a great benefit for the partnership. Any closing thoughts for our readers?***

RF: We are humbled by and proud of our accomplishments; appreciative of the support from our GP; and acknowledge the tireless efforts of our employees, without whom none of this would have been possible. We also thank our debt and equity investors for their steadfast support over the years. We will continue to strive to be responsible stewards of capital.

AA: ***Thank you, Randy.***

Analyst Commentary

"Following a big beat in 2Q, we believe macro conditions remain favorable for EPD amid a backdrop of growing production and persistently wide spreads (Belvieu-Conway, Midland-Houston, etc.). We think EPD is poised to generate meaningful earnings over the next few quarters as it leverages its integrated infrastructure network across multiple commodities. Over the longer term, we believe EPD will benefit as an incumbent midstream player in energy exports . . ."

—Christine Cho, Barclays
August 1, 2018

"Now that's what we call a beat; EPD embarrasses street estimates."

—Jeremy Tonet, JPMorgan
August 1, 2018

"Enterprise's 2Q surge in NGL and oil volumes reaffirms export leadership opportunity."

—Stephen Ellis, Morningstar
August 1, 2018

"Enterprise Products Partners L.P. posted 2Q18 results well above of our expectations and management noted 14 operational/financial records were broken this quarter. The partnership has posted three consecutive strong quarters, and we believe distribution coverage and leverage remain strong through 2019, creating financial flexibility. Accordingly, Enterprise remains one of our favorite names . . ."

—Selman Akyol, Stifel
August 1, 2018

Disclosure

Investors and others should note that Enterprise Products Partners posts important financial information, including non-GAAP reconciliations, using the investor relations section of the Enterprise Products Partners website, www.enterpriseproducts.com, and Securities and Exchange Commission filings.

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